UNITED STATES DISTRICT COURT

FOR THE WESTERN DISTRICT OF WISCONSIN

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APPLE, INC.,

Plaintiff,

-vs- Case No. 11-CV-178-BBC

MOTOROLA MOBILITY, INC., Madison, Wisconsin
May 19, 2011
Defendant. 10:05 a.m.

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STENOGRAPHIC TRANSCRIPT OF TELEPHONIC STATUS CONFERENCE
HELD BEFORE DISTRICT JUDGE BARBARA B. CRABB,

APPEARANCES:

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THE COURT: Good morning, Counsel. This is Judge Crabb. May I have the appearances.

MS. SULLIVAN: Good morning, Your Honor. For Motorola, this is Kathleen Sullivan from Quinn Emanuel, together with my colleagues Brian Cannon and Meghan Bordonaro.

THE COURT: Thank you.

MS. RIED: Good morning, Your Honor. This is Penny Reid with Weil Gotshal on behalf of Apple. And on the line is also local counsel Jim Peterson.

THE COURT: Thank you.

MS. SULLIVAN: Your Honor, I apologize. It's Kathleen Sullivan. Lynn Stathas as local counsel is on the line for Motorola.

THE COURT: Okay. We have two proposals about severing and realigning the 11-178 case. I have a couple of questions about the proposals starting with -- and this goes back to the hearing that was held a few weeks ago. At that point I decided that Apple does not have a likelihood of success on the merits of its breach of contract claims and I also decided it would not suffer irreparable harm without a preliminary injunction and it made more sense for it to pursue its *FRAND* arguments and defenses in the ITC proceeding.

Turning to Apple, why in light of this decision

would you be arguing that I should grant your proposal for an expedited schedule to adjudicate the FRAND claims?

MS. REID: Okay. Thank you, Your Honor. Again, this is Penny Reid. The reason is because the ITC cannot hear the claims that we have currently pending before Your Honor. Specifically, the ITC can't hear any of the breach of contract, the antitrust, any of those type of claims, and under Sec. 1337(c), it specifically granted Apple the statutory right to bring these claims and to proceed in a federal district court, and that's the reason we believe we should go ahead and proceed in the 178 action.

We're not really clear, Your Honor, how it's even possible that you could do what Motorola is asking, and that is to sever the '223 and '697 patents and put them in the 661 action, which is stayed. And that is because that would essentially deprive Apple of the statutory right that it was granted under Section 1337(c).

The DC circuit actually was faced with a very similar situation in *Ansell Healthcare v. Simpson*, 567 F.Supp 2d 196, and in that case the DC court found that it couldn't transfer the actions into a case that was stayed, and it was actually stayed for the same reasons that 661 is stayed. And the Court found that that would

deprive the plaintiff in that action of its statutory rights under 1337. So that's the first reason we think Motorola's request is not proper.

The second reason is we're not sure how severing them and defining them into different cases would be proper if you consider that it would essentially have to litigate the same claims twice in two different actions because it's antitrust, breach of contract. All of those are related to all seven of these patents.

I think there might be some confusion because in the ITC, there is a FRAND affirmative defense, but that FRAND affirmative defense is basically an estoppel claim. It is not the same claims that we have asserted in the counterclaims and that we were entitled to assert under 1337. The ITC will never reach the claims that we have before your court. Even if you put them into 662, ultimately you're going to have to look at them because they're never going to be decided by ITC.

THE COURT: Ms. Reid --

MS. REID: Does that answer your question?

THE COURT: No, I still have some more.

MS. REID: Okay.

THE COURT: You're saying that it would be necessary to litigate some of these things twice, but what I'm wondering about is why not severing and

realigning wouldn't -- if I didn't do that, wouldn't I be trying these things three times, a lot of them?

MS. REID: No. If you did sever and realign, you would be trying them -- you would be trying them twice. If you just proceed with the counterclaims alone in the 178, you will just be trying them in the 178. They are not the same claims that are in 661 and 662. Again, in 661 and 662, all that is pending in those actions is an affirmative defense for estoppel. What we have in 178 are separate claims that are for breach of contract, unfair competition, and they involve different facts, different witnesses, and different claims in total.

If you do decide those upfront, it will resolve the infringement action and that's why -- that was the purpose of the IPR policies, that the whole design of those was to try to avoid what we are now involved in which is essentially a patent holdup; that if you would decide that Motorola has failed to provide a FRAND offer and therefore they've breached their contract, you can avoid all of the infringement actions that are currently pending as to these essential patents. Now it won't apply to the other ones that aren't essential patents, but it resolves all of the issues in 178.

THE COURT: But you're not prepared to say that

you would drop your invalidity contentions and infringement if my determination was that Motorola was required to grant a FRAND license.

MS. REID: No, we're not, because we believe they are two different issues, Your Honor. We believe that Motorola's obligation to grant a FRAND license arises upon their assertion that the patents are essential and that isn't our assertion. We've never agreed with that, but that's their obligations under the IPR policies. And if you hear explanations throughout the trial you will learn arise upon their assertion of essentiality, not upon our acquiescence in that conclusion.

But if Your Honor determines that there is a FRAND rate or they have failed to issue a FRAND rate, we would avoid all of the infringement actions on those essential patents.

THE COURT: Could you explain exactly what you're saying there? I thought that was what I had asked you. Would you drop your invalidity contentions and infringement claims if the determination was that Motorola is required to grant a FRAND license?

MS. REID: I think at that point, if there is a FRAND license in place, we know that there is no longer -- once a license is in place, there is no longer an

infringement action because we will have a license for the patent.

THE COURT: And you'd be a happy with a license that was for $100,000 a year on patents that you think are invalid?

MS. REID: I mean I think, Your Honor, again, I think it depends on the specific claim, whether it's a breach of contract, whether it's an antitrust as to exactly when the FRAND rate -- what it applies to. But I believe once Your Honor -- once a license is in place and it is a FRAND license, there will no longer be a particular -- there won't be an infringement action.

THE COURT: Thank you. Ms. Sullivan, any comments on these questions I've asked of Apple?

MS. SULLIVAN: Yes, Your Honor. We agree very much with Your Honor's statements at the conclusion of the preliminary injunction hearing that it is appropriate here to allow the ITC action to proceed and we believe you should grant our motion to sever and consolidate so that we avoid the result of this splintering of actions. What Apple is trying to do here is create a fourth action while there are already three pending actions, one in the ITC and three in your court, 621 and 622 actions, and they're trying to achieve through this expeditious request the very same result

that Your Honor properly denied in denying the preliminary injunction and that is to try to have an end-run around a pending ITC proceeding that Congress intended; as Your Honor noted at the PI hearing, that Congress intended to proceed rapidly, and that is scheduled to be completed now -- tried in July, completed to an initial determination by November 2011 and to a final determination by March 2012. So we don't think there should be an expedited separate forced FRAND/unfair competition claim that leap frogs these existing actions.

In specific answer to Your Honor's last question, we disagree with Apple and Motorola believes, as we've argued to Your Honor, that you can't get to the FRAND issue until there's a determination that an essential patent has been infringed. Your Honor correctly notes that Apple is denying that our patents are essential to the standard. Apple is denying that it infringes and it is denying that our patents are valid and therefore it's premature to get to a FRAND question because FRAND licenses are obligations that can attach only when there is an infringement of an essential patent.

So we believe, Your Honor, that the proper sequence here is to allow the patent infringement actions that are already pending on claims and counterclaims, the

ITC, and in the 661 and 662 action to proceed in logical sequence. ITC first, 661 proceeding is stayed pending the proceeding of the ITC proceeding, and 662, the action concerning the nonITC patent can proceed in the ordinary course.

Your Honor, the fact that Apple has asserted these FRAND defenses in the ITC proceeding really suggests very clearly that the ITC proceeding may simplify all of the issues that Apple is raising here. It will simplify the issues of patent infringement and validity; it will simplify the issue of essentiality, and it will simplify the FRAND issues as well. What Ms. Reid is suggesting is that there may be remedies for any FRAND issue that need to be obtained in federal district court because the ITC can't grant certain remedies. But having asserted FRAND affirmative defenses in the ITC, Apple really should not be heard to say that -- it needs to come argue FRAND separately and first in this Court.

So Your Honor, just one last point. We don't think we're suggesting any deprivation of Apple's rights under 1337. To the contrary, Apple is already in the 661 and 662 actions in your court by virtue of 1337. What we're suggesting is that there simply be a logical sequence in which the reasons of judicial economy and respect for the ITC proceeding, as Your Honor has already noted, the

ITC proceeding will move along in due course. Apple is free to assert FRAND in the ITC proceeding as it has, then the 661 action, once it's unstayed, if there's anything else to litigate, that it proceed in this Court; and 662, which is independent of the ITC, declared essential patents that are in the pending ITC action, that can proceed in due course. We're not depriving Apple of any 1337 rights, we're suggesting a sequence for those 1337 rights to be exercised.

And last, Your Honor, just if you were to disagree with this, our suggestion, then we would respectfully suggest that you would then have to reach our motion to dismiss this pending 178 action because we don't think it's right. We think Your Honor correctly noted at the preliminary injunction hearing that there are serious questions of rights and that's where, in Your Honor's words, Apple is trying to jump to the end of the case at the beginning. In other words, it's trying to suggest that there are FRAND obligations before we determine whether there is any infringement of a valid and essential patent.

So for all those reasons, Your Honor, we would respectfully suggest that the proper course here, very similar to what Your Honor did in the *SanDisk* case, would be to sever the actions -- sorry -- sever the

patents, the '223 and '679 patents that are alleged here and consolidate those claims, all of those claims into the 661 action that is subject to the stay which Apple jointly sought pending the conclusion of the ITC action.

And then second with respect to the other five patents, '712, '230, '193, '559 and '898, those should be severed and consolidated with the pending 662 action and any FRAND arguments can be raised in due course.

And just last, Your Honor, Apple asserts that well, there are these unfair competition and antitrust claims that crosscuts the patent. We respectfully disagree. We think those can be severed and consolidated along with the underlying contract claims because determinations of antitrust or unfair competition will depend on conclusions about the patents. Obviously if there's a valid patent that's been infringed, that will have an effect on determination of whether anyone has violated the competition laws. It violates the competition laws by asserting your valid intellectual property.

THE COURT: Let me -- I just want to be sure I understood what you were saying about those particular claims. The deceptive actions, the unfair competition, the declaratory judgment, tortious interference with contract, are you saying they could be part of both

cases or that --

MS. SULLIVAN: Yes, Your Honor.

THE COURT: -- they would be part of the 662?

MS. SULLIVAN: Your Honor, we think they can be part of both cases. So Your Honor, I guess what I'd like to suggest is that we think they can be severed and put in both cases or they could all be put in the 661 action and subject to the stay because we think that the unfair competition and tortious interference claims will be influenced or simplified by the ITC action for the same reasons as the patent infringement claims will be simplified and clarified by the ITC action.

THE COURT: And if I were to decide just not to do anything about the 178 case in terms of severing, consolidating, realigning, whatever, you're saying that you would move to dismiss it as not ripe?

MS. SULLIVAN: That's correct, Your Honor. We have a pending motion before Your Honor --

THE COURT: Right.

MS. SULLIVAN: -- that's now been fully brief in which we have moved to dismiss it, both as unripe and as failing to state a claim with sufficient particularity and under *Twombly* and so forth with respect to the contract claims as well as the other claim. So we don't think you need to reach the motion

to dismiss. If you agree with our procedure to sever and consolidate, that will simply postpone Apple's current contentions regarding FRAND and just postpone them to another day. But if you were to disagree with us, then we would respectfully suggest that you would have to reach the pending motion to dismiss unless you were to simply decide to stay the entire proceedings pending the outcome of the ITC proceeding.

THE COURT: And it's your belief that that motion would dispose of the entire 178 case, if granted?

MS. SULLIVAN: We do, Your Honor.

THE COURT: Okay. And Ms. Reid, any comments on the questions that I've asked?

(Phone rings in background)

MS. REID: I apologize. That's my other line. Again, I would just try to explain that I think what is happening is there is a confusion between '659, which allows a plaintiff -- which allows a defendant to say they will stay a proceeding in the ITC or a separate district court proceeding, to allow the infringement claim in the ITC to proceed, which is completely consistent with what we agreed to do with Motorola in 1337 which was actually enacted in the same legislation as 1659 which grants Apple the right to bring separate actions that are not infringement-based; that are

counterclaims that a plaintiff or a defendant is entitled to bring in a federal district court. They were both in the same legislation. They were enacted at the same time, recognizing that you don't want to duplicate what the ITC is doing.

We're in complete agreement that we still want to keep the infringement in 661 stayed while ITC proceeds. But again, this is a separate action, separate claims under 1337 and under the holding in *Ansell*, which the DC district court recognized is a separate matter and those should be allowed to proceed. Whether they proceed in the 178 or whether they all go into the 662, again, we don't think that's the best thing. We think they should go by themselves in the 178, and once they're resolved, I think Your Honor will find they've resolved a lot of other issues. But that's my final position.

Thank you, Your Honor.

THE COURT: Thank you. Anything else from either side?

MS. SULLIVAN: Not unless you have questions, Your Honor. We think it's very clear that we're not depriving Apple of its 1337 lines, we're simply suggesting, in line with *SanDisk* and in line with the statutory scheme, that there be a proper sequence with respect to any district court claims and that the ITC

claims and defenses be resolved first, and therefore we think the proper course is to sever and consolidate along the lines we've urged Your Honor.

THE COURT: Thank you. And Ms. Reid, anything further?

MS. REID: No, Your Honor. Thank you.

THE COURT: Thank you. I'll try to get something out fairly promptly. Thank you for your help.

MS. SULLIVAN: Thank you, Your Honor.

MS. RIED: Thank you.

THE COURT: Good-bye.

(Proceedings concluded at 10:26 a.m.)

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I, LYNETTE SWENSON, Certified Realtime and Merit Reporter in and for the State of Wisconsin, certify that the foregoing is a true and accurate record of the proceedings held on the 19th day of May 2011 before the Honorable Barbara B. Crabb, District Judge for the Western District of Wisconsin, in my presence and reduced to writing in accordance with my stenographic notes made at said time and place. Dated 2-1-13.

/s/_____

Lynette Swenson, RMR, CRR, CBC
Federal Court Reporter